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**HOTELIER AND THREE EXECUTIVES CONVICTED**  
**IN U.S. COURT IN \$100 MILLION-DOLLAR BANK FRAUD**

DAVID N. KELLEY, the United States Attorney for the Southern District of New York, announced that MONTY D. HUNDLEY, a principal of a major United states hotel chain, was convicted yesterday in Manhattan federal court of masterminding a scheme that defrauded a dozen creditors out of nearly \$100 million dollars, following a three-month trial before the United States District Court Judge LORRETTA A. PRESKA. Three former senior executives of the company were also convicted for their roles in the scheme.

HUNDLEY was one of two principals of Tollman-Hundley Hotels, a group of companies that at its peak owned, managed, and operated more than one hundred hotels throughout the United States and he was also one of the former owners of Days Inn of America, the parent company of the Days Inn hotel chain.

The three former executives of TOLLMAN-HUNDLEY HOTELS convicted were Executive Vice President and General Counsel SANFORD FREEDMAN, Chief Financial Officer JAMES CUTLER, and Vice President of

Finance HOWARD ZUKERMAN. HUNDLEY's business partner and alleged co-conspirator, Stanley Tollman, is a fugitive.

According to the Indictment and the evidence presented at trial, throughout the 1980s and 1990s, HUNDLEY and Tollman built a series of companies that owned and managed more than 100 hotels. The growth of those companies came about largely through borrowing of hundreds of millions of dollars from and through various financial institutions, including Chemical Bank, National Westminster Bank, First National Bank of Chicago, Marine Midland, and Security Pacific (now Bank of America)("the Defrauded Financial Institutions"). HUNDLEY and Tollman personally guaranteed many of these loans.

In the early 1990s, many of their hotel properties failed to repay these loans, and, following a restructuring, HUNDLEY and Tollman signed deficiency notes making themselves personally liable to their creditors, including the Defrauded Financial Institutions, for approximately \$100 million.

According to the evidence at trial, at around the same time, HUNDLEY and Tollman sold Days Inn of America to Hospitality Franchise Systems ("HFS"), the predecessor of Cendant. In connection with that sale, HUNDLEY and Tollman entered into an earnout agreement with HFS, entitling them personally to more than a million shares of HFS stock under certain circumstances. Pursuant to that agreement, between 1993 and 1995 HUNDLEY and Tollman received and sold more than a hundred million dollars worth of HFS stock.

Rather than use the proceeds of the HFS stock sale to repay their creditors in full, the evidence at trial showed that HUNDLEY and Tollman, with the assistance of FREEDMAN, CUTLER and ZUKERMAN instead pulled off a massive fraud. The conspirators (1) falsely represented to HUNDLEY and Tollman's creditors that HUNDLEY and Tollman were broke and lacked the means to repay their debts; and (2) duped the creditors into selling those debts, at a steep discount, to purportedly unrelated third parties who, the evidence showed, were in fact sham entities controlled and funded by HUNDLEY and Tollman.

To convince the banks that Tollman and HUNDLEY were broke, the evidence at trial showed that the defendants made various false oral and written statements to the banks, including providing the banks with financial statements and schedules which omitted numerous substantial assets of HUNDLEY and Tollman, including (1) the \$100 million from the sale of HFS stock; (2) Tollman's multimillion dollar homes in Palm Beach, Florida, 485 Park Avenue in Manhattan, New Preston, Connecticut, and London, England; (3) HUNDLEY's multimillion dollar home in Bedford, New York; and (4) Tollman and HUNDLEY's ownership interests in various businesses they controlled, including Alpha Hospitality, a publicly traded gaming company.

To convince the banks that the purported third parties offering to purchase the debts were real, the evidence at trial showed, HUNDLEY and Tollman, with the assistance of FREEDMAN, CUTLER, and ZUKERMAN, falsely represented to the Defrauded Financial

Institutions that they had found a group of "European investors" willing to purchase the debt from the Defrauded Financial Institutions, at a steep discount (typically 10% of the face value of the debt). HUNDLEY and Tollman thereafter identified two companies that they secretly controlled -- Paternoster Holdings, and Chelsea Acquisitions Inc. -- as the companies through which these unnamed European investors purportedly would purchase the debt. The evidence at trial showed there were no European investors; instead, Paternoster and Chelsea were straw entities controlled by HUNDLEY and Tollman, and Paternoster and Chelsea purchased the debt largely with the proceeds of the sale of HFS stock that HUNDLEY and Tollman had hidden from their creditors. In certain transactions, HUNDLEY, Tollman, FREEDMAN, CUTLER, and ZUKERMAN enlisted a New York businessman, James Cohen, to pose as the representative of the "European investors" supposedly financing Paternoster and Chelsea, and pretend to negotiate with the Defrauded Financial Institutions on their behalf. In truth, HUNDLEY and Tollman, directly and through FREEDMAN and ZUKERMAN, dictated to Cohen, their co-conspirator, his negotiating positions.

The evidence also showed that HUNDLEY, Tollman, and FREEDMAN allegedly arranged for business associates of Tollman and family relations of Tollman who did not share Tollman's last name to sign contracts and other documents for Paternoster and Chelsea. In many of the contracts, the family relations expressly represented, falsely, that Paternoster and Chelsea were truly separate entities, not

controlled or beneficially owned by HUNDLEY and Tollman. In certain transactions, HUNDLEY and Tollman themselves also specifically represented, falsely, that they had no financial interest in Paternoster and Chelsea, or that they were not funding Paternoster's purchase of their debt.

The evidence at trial established that between 1993 and 1996, the conspirators persuaded the Defrauded Financial Institutions and certain other creditors to sell more than \$100 million in TOLLMAN and HUNDLEY's personal debt to Paternoster and Chelsea for less than \$10 million.

#### **Perjury**

The jury also convicted defendant FREEDMAN of perjury for giving false testimony in a deposition relating to a bankruptcy case. The evidence at trial showed that one of HUNDLEY and Tollman's creditors became suspicious of whether Paternoster was truly an independent entity from HUNDLEY and Tollman, and attempted to investigate that subject during a bankruptcy proceeding by, among other things, questioning FREEDMAN under oath at a deposition. The evidence at trial showed that during the deposition, FREEDMAN lied in an effort to create the false impression that Paternoster was a legitimate third party, rather than a pawn, controlled by HUNDLEY and Tollman.

#### **Income Tax Evasion**

In addition to the bank fraud scheme described above, the

jury also convicted defendants HUNDLEY and CUTLER of participating in a separate, decade-long conspiracy to defraud the IRS by causing the Tollman/Hundley companies to fail to report to the IRS more than \$29 million in compensation paid to a dozen Tollman/Hundley employees during the 1990s. The evidence revealed that for certain senior executives at the Tollman/Hundley companies, the companies simply chose not to issue W2s or 1099s reporting their compensation to the IRS, and that for other executives and employees, the companies issued W2s or 1099s reflecting only a portion of their true income.

The jury also convicted HUNDLEY of numerous personal tax charges: income tax evasion for the tax years 1994 and 1995, failure to file timely tax returns for the tax years 1994 and 1995, and filing false tax returns for the years 1995-1999.

The evidence at trial showed that HUNDLEY - who received no W2s or 1099s from his companies - owed more than \$2 million in taxes for 1994 and more than \$1 million in taxes for 1995, but failed to file a timely return in either year. Indeed, the evidence at trial showed that HUNDLEY failed to file any personal income tax returns from at least 1974 until the start of this investigation in 1996. The evidence further showed that upon learning he was under criminal investigation, HUNDLEY for the years 1995 through 1999 filed tax returns which falsely denied his ownership of a secret bank account in Guernsey, the Channel Islands.

The jury also convicted defendant CUTLER of two counts of

tax evasion, for the tax years 1994 and 1995, for failing to report tens of thousands of dollars in "consulting fees" he received from the Tollman/Hundley companies for which no 1099s or W-2s were issued.

Defendant ZUKERMAN was previously prosecuted for his own tax crimes in the Eastern District of New York, where, in 2000, ZUKERMAN pled guilty to failing to file tax returns at a time he was earning more than \$150,000 per year for which no 1099s or W-2's were issued by the Tollman/Hundley companies.

Brett Tollman, the son of the fugitive Stanley Tollman, pled guilty on September 5, 2003, to participating in the conspiracy not to report to the IRS the true compensation paid to Tollman/Hundley executives and employees and to a separate tax evasion scheme involving millions of dollars in income not reported to the IRS earned from the Tollman family company Trafalgar Tours.

According to documents filed in court:

HUNDLEY, 60, lives in Windemere, Florida.

FREEDMAN, 67, lives in Riverdale, the Bronx, New York.

CUTLER, 53, lives in Las Vegas, Nevada.

ZUKERMAN, 57, lives in Syosset, New York.

The defendants were convicted of the following counts and face the following penalties:

Crime	Defendants convicted	Penalty per count
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Conspiracy to commit bank fraud in violation of Title 18, U.S.C. 371	HUNDLEY (one count) FREEDMAN (one count) CUTLER (one count) ZUKERMAN (one count)	5 yrs. imprisonment; fine in amount of greatest of \$250,00, twice gross gain, or twice gross loss to victims; 3 yrs. S.R.; \$100 SA; restitution; forfeiture.
Bank Fraud, in violation of Title 18, U.S.C. 1344	HUNDLEY (six counts) FREEDMAN (five counts) CUTLER (two counts) ZUKERMAN (two counts)	30 yrs. imprisonment; fine in amount of greatest of \$1 million, twice gross gain, or twice gross loss to victims; 5 yrs. S.R.; \$100 SA; restitution; forfeiture.
False Statements to Banks, in violation of Title 18, U.S.C. 1014	HUNDLEY (eleven counts) FREEDMAN (seven counts) CUTLER (one count)	30 yrs. imprisonment; fine in amount of greatest of \$1 million, twice gross gain, or twice gross loss to victims; 5 yrs. S.R.; \$100 SA; restitution; forfeiture.
Perjury, in violation of Title 18, U.S.C. 1623	FREEDMAN (one count)	5 yrs. imprisonment; fine in amount of greatest of \$250,00, twice gross gain, or twice gross loss to Gov't; 3 yrs. SR; \$100 SA; restitution



Conspiracy to Defraud the United States in violation of Title 18, U.S.C. 371	HUNDLEY (one count) CUTLER (one count)	5 yrs. imprisonment; fine in amount of greatest of \$250,00, twice gross gain, or twice gross loss to victims; 3 yrs. S.R.; \$100 SA; restitution
Tax Evasion, in violation of Title 26, U.S.C. 7201	HUNDLEY (two counts) CUTLER (two counts)	5 yrs. imprisonment; fine in amount of greatest of \$250,00, twice gross gain, or twice gross loss to Gov't; 3 yrs. S.R.; \$100 SA; costs of prosecution
Failure to File Timely Tax Returns, in violation of Title 26, U.S.C. 7203	HUNDLEY (two counts)	1 yr. imprisonment; fine in amount of greatest of \$100,00, twice gross gain, or twice gross loss to Gov't; 1 yr. SR; \$50 SA; costs of prosecution
Subscribing to False Tax Returns	HUNDLEY (five counts)	3 yrs. imprisonment; fine in amount of greatest of \$250,00, twice gross gain, or twice gross loss to Gov't; 1 yr. SR; \$100 SA; restitution

A forfeiture charge in the Indictment which seeks forfeiture of \$45 million from all four defendants is pending before Judge Preska.

Defendants HUNDLEY, FREEDMAN, CUTLER and ZUKERMAN are scheduled to be sentenced before Judge PRESKA on June 2, 2004. Brett Tollman is scheduled to be sentenced before Judge PRESKA on March 12,

2004.

Mr. Kelley praised the outstanding investigative work of both the Internal Revenue Service and the Federal Bureau of Investigation, and noted that the investigation is continuing.

Assistant United States Attorneys PETER G. NEIMAN, JUSTIN S. WEDDLE, JOHN P. COLLINS, JR. and STANLEY J. OKULA are in charge of the prosecution.

The charges contained in the Indictment are merely accusations as to Stanley Tollman and he is presumed innocent unless and until proven guilty.

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